

**BEFORE THE INSURANCE COMMISSIONER
FOR THE STATE OF ARKANSAS**

IN THE MATTER OF THE
APPLICATION FOR APPROVAL OF
ACQUISITION OF CONTROL OF
MEMORIAL INSURANCE COMPANY OF AMERICA
BY SOUTHERN SECURITY LIFE INSURANCE COMPANY

A.I.D. No. 2005- 069

ORDER

On Friday, December 9, 2005, at 10:00 a.m., in the Hearing Room of the Arkansas Insurance Department (the "Department"), in accordance with the provisions of Ark. Code Ann. §§ 23-61-109, 23-63-510, and other applicable law, a public hearing was held pursuant to a Form A Application filed by Southern Security Life Insurance Company ("SSL") seeking approval of the acquisition of control of Memorial Insurance Company of America ("MICA"), as detailed in the Form A Application dated October 20, 2005, and all supplemental filings (collectively, the "Form A"). In addition, SSL requests approval of the proposed agreements and proposed form of notes that were submitted to the Department in connection with the Form A. The agreements and notes consist of the proposed Reinsurance Agreement between MICA and Security National Life Insurance Company ("SNL"), SSL's immediate parent, as Reinsurer; the Stock Purchase Agreement among SNL, SSL, MICA, and the Shareholders of MICA; the proposed Trust Agreement among MICA as Grantor, SNL as Beneficiary, and Zions Bancorporation as Trustee; the proposed Promissory Note by MICA as Maker and SNL as Payee; the proposed Security Agreement between MICA as Debtor and SNL as Secured Party; the proposed Surplus Contribution Note between MICA as Maker and SSL as Payee; and the proposed Guaranty Agreement by SNL and SSL as Guarantors (collectively, the "Agreements

and Notes"). Finally, in accordance with Ark. Code Ann. § 23-63-515, SNL seeks approval of an Administrative Services Agreement between SNL and MICA as detailed in the Form D filed on December 6, 2005.

The Hearing Officer was the Honorable Julie Benafield Bowman, Commissioner of the Arkansas Insurance Department. The Department was represented by Sara Farris, Esq., Associate Counsel, and Mr. Mel Anderson, Deputy Commissioner for Financial Regulation & Audit. Representing SNL and SSL were Scott M. Quist, President and Chief Operating Officer of SNL and SSL and Stephen M. Sill, Vice President, Treasurer and Chief Financial Officer of SNL and SSL, and Randall A. Mackey, Esq. of Mackey Price Thompson & Ostler, their counsel. Representing MICA were Larry Perrin, Chief Operating Officer and Treasurer of MICA, and Guy A. Wade, Esq. and Bryan W. Duke, Esq. of Friday, Eldredge & Clark, LLP, its counsel. Messrs. Quist, Sill and Perrin testified at the hearing.

FINDINGS OF FACT

Proposed Acquisition of MICA by SSL

From the Form A, exhibits, testimony of witnesses, reports, correspondence, financial information, plan of operation, statements on file with the Department, representations of counsel, and other matters considered, the Commissioner finds that:

1. MICA is an Arkansas-domiciled insurance company that markets life insurance policies and single premium deferred and variable premium annuities to fund funeral prearrangement and funeral expense plans.
2. SSL is a Florida-domiciled insurance company engaged in the life, accident and health, and annuity business. SNL is a Utah-domiciled insurance company engaged in the

business of selling and servicing selected lines of life insurance, annuity products, and accident and health insurance.

3. Mr. Quist testified that SSL will obtain control of MICA by acquiring shares of common stock from all but one of MICA's shareholders. Subsequent to the hearing, the last remaining shareholder agreed to sell his shares in accordance with the Stock Purchase Agreement. Therefore, SSL will acquire all of the issued and outstanding shares of MICA's common capital stock.
4. Mr. Quist also testified that the acquisition will be effected pursuant to the terms specified in the Stock Purchase Agreement. The MICA shareholders shall receive, on a pro rata basis to the number of shares of MICA common stock held by such shareholders, purchase consideration in the aggregate amount of thirteen million five hundred thousand dollars (\$13,500,000). The source and nature of the consideration for purchase of the MICA common stock consists of cash from the sale of \$13.5 million of MICA's bonds and from a \$2.2 million cash contribution by SSL to MICA in the form of a Surplus Contribution Note.
5. Although the Stock Purchase Agreement states that the purchase will be treated as a "part sale, part redemption" of the MICA common stock for federal and state income tax purposes, Exhibit 45 states that the parties decided to treat the acquisition as a redemption. At the hearing, the parties were reminded that a redemption may only be paid out of earned surplus, and that MICA does not have enough earned surplus for a full redemption. Subsequent to the hearing, the parties decided to treat the acquisition as a "part sale, part redemption" of the MICA common stock. Approximately \$12.2 million

of the purchase price will be in the form of a redemption and the balance of the purchase price, or approximately \$1.3 million, will be treated as a sale.

6. Mr. Quist then testified that the steps of the acquisition of MICA pursuant to the Stock Purchase Agreement will be as follows:
 - a. Upon approval of the Form A by the Department, MICA will sell \$13.5 million of its bonds to provide MICA with \$13.5 million in cash.
 - b. SSL will contribute \$2.2 million to MICA in the form of a Surplus Contribution Note.
 - c. The shareholders of MICA will convey all of their shares of MICA common stock to an escrow agent.
 - d. MICA will declare and pay \$13.5 million to its shareholders in the form of part stock redemption and part sale.
 - e. SNL will enter into a Reinsurance Agreement and a Trust Agreement whereby, on a permanent 100% coinsurance basis, it will undertake the obligations of the policies of MICA, other than the policies to be retained by MICA.
 - f. Because the reserve liabilities will have been undertaken by SNL, MICA will execute a Promissory Note in an amount equal to the reserve liability undertaken by SNL. The Promissory Note will be secured by the assets of MICA. The note will be held in trust pursuant to the Trust Agreement.
 - g. In January 2006, the Promissory Note will be paid in the form of assets remitted to the trust.
 - h. In January 2006, the Surplus Contribution Note with SSL will be repaid.

- i. At the conclusion of the transaction, MICA will have capital and surplus of approximately \$1,158,000, will have retained certain policies, and will have policyholder liabilities of approximately \$10,000. SNL will have undertaken the policyholder liabilities of MICA and will have agreed to perform all administrative functions for MICA in return for \$25.00 per policy per year on the retained policies, and in return for the execution of the Reinsurance Agreement on the reinsured policies.
7. The policies to be retained by MICA pursuant to the Stock Purchase Agreement consist of the following policies, together with the face amount and amount of reserves of such policies:

<u>Policy Number</u>	<u>Face Amount</u>	<u>SAP Reserve</u>
40116	\$1,400.00	\$665.50
37893	1,400.00	665.50
40117	1,200.00	374.72
39303	1,200.00	374.72
34758	700.00	557.46
38161	1,300.00	406.95
39301	2,600.00	1,090.88
32025	3,500.00	1,984.97
36085	1,400.00	744.95
34759	700.00	576.04
44711	<u>1,400.00</u>	<u>1,102.01</u>
Total	\$16,800.00	\$8,543.70

8. Under the terms of the Guaranty Agreement, SNL and SSL, as guarantors, agree to guarantee to MICA, the Department and the policyholders of the policies to be retained by MICA the full and prompt payment, when due, of the benefit payments stated in each

of the retained policies, to the extent that the reserves relating to such policies are unable to provide for the full and complete payment of the benefits.

9. Following the transfer of reserves and related assets into the trust account pursuant to the Reinsurance Agreement between MICA and SNL and the Trust Agreement among MICA, SNL, and Zions Bancorporation, SNL and SSL agree that MICA's capital and surplus will not be less than \$1 million.
10. Mr. Quist also testified that MICA will be operated under the new ownership so as to maintain a minimum of \$1 million of capital and surplus at all times.
11. Mr. Quist further testified that based on analysis of the financial projections prepared on behalf of SNL and SSL, MICA will have, upon consummation of this transaction, sufficient levels of capital and surplus to support its business.
12. Based on testimony of Mr. Quist, the plan of operation, financial projections, and other information filed by SSL in conjunction with the Form A:
 - a. SNL and SSL do not plan to make substantial changes post-acquisition to the operations of MICA, except for those identified herein or in the Form A.
 - b. The proposed directors and officers of MICA will be as follows:

Directors

George R. Quist	Chairman of the Board
Scott M. Quist	Director
G. Robert Quist	Director
J. Lynn Beckstead, Jr.	Director
Charles L. Crittenden	Director

Robert G. Hunter, M.D. Director

H. Craig Moody Director

Norman G. Wilbur Director

Officers

George R. Quist Chairman and Chief Executive Officer

Scott M. Quist President and Chief Operating Officer

Stephen M. Sill Vice President, Treasurer and Chief
Financial Officer

G. Robert Quist First Vice President and Secretary

Diana C. Olsen Vice President and Controller

Jason G. Overbaugh Vice President

Nathan L. Wolf Vice President

Christie R. Overbaugh Vice President, Underwriting

John W. VanValkenburg Vice President, Actuarial Services

- c. SNL and SSL plan for MICA to write new business as described in the Form A.
 - d. SNL and SSL have no present plans to cause MICA to declare any extraordinary dividends, except as described in the Form A.
13. Mr. Quist confirmed that the administrative services for SSL are currently being performed in offices located at 5300 South 360 West, Suite 250, Salt Lake City, Utah 84123. However, as required by Arkansas law, the home office of MICA after the acquisition would continue to be located at 634 West Main, Blytheville, Arkansas 72315.
14. Mr. Quist further testified on behalf of SNL and SSL that, in his opinion:

- a. SSL's acquisition of control of MICA will not cause MICA to be unable to satisfy the requirements to issue the lines of business it is authorized to write in Arkansas;
 - b. SSL's acquisition of control of MICA will not substantially lessen competition in insurance in Arkansas or create a monopoly in the state;
 - c. The financial condition of SSL will not jeopardize the financial stability of MICA or prejudice the interest of MICA's policyholders or the interest of remaining security holders who are unaffiliated with MICA, if any;
 - d. The terms of the acquisition are fair and reasonable to the security holders of MICA.
 - e. SNL and SSL have no plans to liquidate MICA, sell its assets, consolidate or merge the insurer with any person, or make any other material changes to the business, corporate structure or management that are unfair or unreasonable to MICA or its policyholders or are inconsistent with the public interest; and
 - f. The competence, experience and integrity of the persons who will control the operations of MICA after the acquisition are such that it is consistent with the interest of MICA's policyholders and the public to allow the acquisition to go forward.
15. Should there be a change in the proposed directors or executive officers of MICA within 60 days of the close of the transaction, SSL will notify the Commissioner of the change and any such change shall be subject to prior written approval by the Commissioner.
16. Mr. Perrin testified on behalf of MICA that, in his opinion:

- a. He is in agreement with the transactions which are the subject of the Form A and that he has had adequate time to consider such transactions;
- b. The terms of SSL's acquisition of control of MICA are in the best interest of MICA; and
- c. The terms of SSL's acquisition of control of MICA are fair and reasonable to the policyholders and shareholders of MICA.

Form D Transaction

From the Form D, testimony of witnesses, reports, correspondence, financial information, plan of operation, statements on file with the Department, representations of counsel, and other matters considered, the Commissioner further finds:

- 17. SNL and SSL have provided prior notice of the proposed Administrative Services Agreement between SNL and MICA by means of a Form D filing.
- 18. The terms of the proposed Administrative Services Agreement are fair and reasonable.
- 19. The books, accounts and records of each party to the Administrative Services Agreement will be maintained so as to clearly and accurately disclose the precise nature and details of the agreement.
- 20. The fees for services performed are reasonable.

Closing of Transactions Subject to Contingencies

- 21. The Closing of the acquisition that is the subject of the Forms A and D and the related Agreements and Notes is contingent on the attainment of certain governmental and regulatory consents, which consist of the Arkansas Insurance Commissioner and, with regard to the Surplus Contribution Note, the Florida Office of Insurance Regulation.

22. Mr. Quist testified that the anticipated closing date for the acquisition of MICA will be as soon as possible following the date of the Order and the approval of the Surplus Contribution Note by the Florida Office of Insurance Regulation.

Hearing Record

23. Although the hearing record was closed at the end of the hearing, the parties agree that the record should be re-opened to allow the admittance of the following new evidence:
- a. Exhibit 49 should be an email dated December 19, 2005 to Sara Farris from Bryan Duke with an attached signature page to the Stock Purchase Agreement showing that the last remaining shareholder has agreed to sell his stock pursuant to the Stock Purchase Agreement;
 - b. Exhibit 50 should be an email dated December 16, 2005 from SNL to Brenda Haggard with a copy of a revised Surplus Contribution Note that corrects a typographical error.
 - c. Exhibit 51 should be a faxed letter dated December 21, 2005 from Randall Mackey to Sara Farris that describes the decision to treat the acquisition as a "part sale, part redemption" of the MICA common stock for tax purposes.

CONCLUSIONS OF LAW

Based upon the Findings of Fact and the law, the Commissioner concludes as follows:

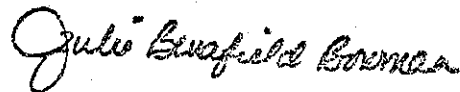
- A. The Commissioner has jurisdiction over the parties and subject matter herein.
- B. The record is re-opened solely for the purpose of admitting the additional evidence described in paragraph 23.
- C. None of the preclusions of Ark. Code Ann. § 23-63-510 exist as to the acquisition of

control of MICA by SSL or approval of the Agreements and Notes. Therefore, the acquisition and the related Agreements and Notes should be approved.

- D. The requirements of Ark. Code Ann. § 23-63-515 are met as to the Administrative Services Agreement and the Form D. Therefore, the Administrative Services Agreement and Form D should be approved.

Based on the foregoing Findings of Fact and Conclusions of Law, and being in all things duly advised, IT IS THEREFORE ORDERED that pursuant to Ark. Code Ann. § 23-63-510, the acquisition of control of MICA by SSL; the proposed Reinsurance Agreement between SNL and MICA; the Stock Purchase Agreement among SNL, SSL, MICA, and the Shareholders of MICA; the proposed Trust Agreement between SNL and MICA; the proposed Promissory Note between MICA as Maker and SNL as Payee; the proposed Security Agreement between MICA as Debtor and SNL as Secured Party; the proposed Surplus Contribution Note between MICA as Maker and SSL as Payee; the proposed Guaranty Agreement by SNL and SSL as Guarantors; and the proposed Administrative Services Agreement and Form D are hereby approved.

IT IS THEREFORE ORDERED this 21st day of December, 2005.



Julie Benafield Bowman
Insurance Commissioner